



USDA Foreign Agricultural Service

GAIN Report

Template Version 2.09

Global Agriculture Information Network

Required Report - public distribution

Date: 3/19/2008

GAIN Report Number: TC8008

United Arab Emirates

HRI Food Service Sector

Update - UAE HRI Food Service Report

2008

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The HRI sector in the UAE continues to grow in response to rising business and tourist travel, incomes and population. Dubai in particular is expanding as a regional business and travel hub creating demand for hotels and restaurants. The large numbers of laborers in the UAE present an opportunity for caterers, as do growing medical and educational sectors. Importers and distributors are very price conscious, but U.S. products and exporters have a reputation for quality and customer service among consumers and importers.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Dubai [TC1]
[TC]

SECTION 1

MARKET SUMMARY

The United Arab Emirates (UAE) is located on the Persian Gulf on the Arabian Peninsula with a population estimated at 5 million and a Gross Domestic Product (GDP) of \$190 billion in 2007. It is a federation of seven emirates with the two emirates of Abu Dhabi and Dubai contributing around 85% of GDP, largely led by the former's oil revenues. The UAE enjoys one of the world's highest per capita incomes, estimated at over \$38,000 and is an active member of both OPEC and the Gulf Cooperation Council (GCC)¹.

The desert nation has very little annual rainfall and high temperatures and coastal humidity throughout much of the year. The harsh climate makes farming difficult and agricultural production is limited.

The UAE depends heavily on the importation of foods for direct consumption and further processing to augment its limited domestic production. In addition, the Emirate of Dubai is a regional trade center, re-exporting food products to East Africa, the Indian Subcontinent, Iran, and former Soviet republics. In the absence of accurate government data on re-exports of food, major food traders estimate that up to 50 percent of Dubai's estimated \$5 billion in food imports are re-exported. The UAE's position as a regional trade and services hub continues to attract expatriate workers from around the world. Increases in population and business and tourist travel have led to increasing demand for food imports.

The UAE's unique demographic mix, which includes workers from nearly 200 countries performing tasks ranging from street cleaners and construction to medicine and higher education, creates strong and varied demand for food in terms of price, cuisine, and quality. UAE nationals are also influenced by the varied cuisines available in their country. The growing number of fast food chains, casual dining and high-end restaurants, shopping malls, and hypermarkets are all evidence of the increasing consumer demand. For the most part, hotels and restaurants are thriving given the growing numbers of business and leisure tourists. On the other end of the scale, institutional caterers do a brisk business servicing food service requirements in labor camps, offshore and onshore oil rigs, and some healthcare and educational institutions.

Several factors point to a continued growth in the food service sector:

- Increasing population of the UAE, rising by 4% annually.
- A consistent increase in the number of tourists visiting the UAE, especially Dubai.
- Continuing efforts to market Dubai, and other emirates such as Sharjah and Fujairah, for tourism, commerce and education.
- Growth in sectors such as education and healthcare creating opportunities for food service businesses.
- Increasing time pressures on individuals in the work environment, leading to an increased propensity to dine away from home.
- A growing number of females in the labor force, contributing to an increasing need for home-meal-replacement options.

¹GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

- The process of 'emiratization' which is training and bringing more UAE nationals into the workforce, with a greater distribution of wealth.

Total domestic consumption of food and food products in the UAE is estimated at close to \$4 billion. The local food processing industry is steadily growing, primarily in the areas of dairy products, reconstituted juices, biscuits and other snacks and meat processing. 45 – 50 percent of total domestic consumption is estimated to be in the HRI sector.

Tourism is a rapidly growing sector and important source of income for the UAE economy. The number of visitors to the country is estimated to have exceeded 12 million in 2007 and the Dubai airport alone handled 33 million passengers, pointing to the possibility of even more future tourists if transiting passengers decide to spend a few days in Dubai. A large number of modern, luxury hotels have been built over the past decade to meet the increasing demand for hotel rooms. There are over 400 hotels currently operating in the country, with a concentration in the Emirates of Dubai and Abu Dhabi. Dubai has the lion's share with 318 hotels, followed by Abu Dhabi with 45 and Sharjah with 33. Almost every major international hotel chain is represented. A total of 66 luxury 5 star hotels are currently operating in the Emirates of Dubai (45 hotels) and Abu Dhabi (21 hotels). The number of 4 star hotels exceeded 65, with 50 hotels in Dubai and 15 in Abu Dhabi. Less opulent hotels push the total room capacity in the UAE to close to 50,000 rooms; 32,600 in Dubai, 11,000 in Abu Dhabi and 3,720 in Sharjah. Consumption in this sub-sector is estimated at about 50 percent of the UAE food service market.

The number of stand-alone restaurants exceeded 11,000 in 2007, serving both residents and tourists and growing nearly five percent annually. Main factors triggering this growth include the large population of expatriate singles, the increasing number of dual-income households, and rising disposable incomes.

There are an estimated 50 companies in the institutional catering segment. However, only a few are especially active and dominate the sector. This segment serves traditional institutional needs and the needs of a large expatriate population living in labor camps across the country. One estimate is that there are as many as 1.5 million workers are fed in the UAE via catering each day.

The UAE is the second largest GCC market for US food products after Saudi Arabia, accounting for about 30 percent of total US food imports into GCC. Total U.S. agricultural exports were \$489 million in 2007. The import duty on food products is five percent, except for products deemed to be essential with are enter duty free.

Table 1 – Opportunities and Threats for U.S. Exporters – UAE Market

Opportunities	Threats
1. Continuing growth in tourism implies greater demand for imported products.	1. Strong competition from Asian, African and European exporters.
2. US products are recognized as high quality products.	2. Landed prices for U.S. foods are relatively high compared to some lower cost suppliers.
3. Popularization of American culture is translating into increased demand for American products.	3. The market is very price sensitive.
4. American fast food and casual dining chains are popular and hold significant market share.	4. U.S. goods must travel longer distances than goods from regional suppliers.
5. Tariff and non-tariff barriers are minimal.	5. Varied tastes and preferences mean that consumers often look for products from their home countries.
6. Weak U.S. currency and peg of the UAE Dirham to the dollar favors U.S. products.	6. Arabic language labeling and statutory requirement of production and expiry dates on labels.

SECTION II

ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

The easiest and most commonly used method to enter the market is through a local importer or distributor, utilizing their knowledge of the local market, established trade contacts and existing distribution set-up and channels. Distributors are often willing to coordinate promotions and advertising which are important in the competitive UAE market.

Participation in local food shows, particularly Gulfood (www.gulfood.com) has proven to be a vital tool to promote and introduce products. It is also seen as a cost-effective and quick means to obtain market exposure.

New to market U.S. companies need to understand prevailing food import and labeling requirements for this market. They are available in the latest update of the U.A.E. "Food and Agricultural Import Regulations and Standards (FAIRS)". It is available on the USDA/FAS web page "www.fas.usda.gov". The following are short guide lines:

- Meat, poultry and products containing non-dairy animal ingredients must be Halal;
- U.S. products are perceived to be of good quality, yet they are premium

priced products. In part, this is related to the high freight rate from the U.S. to the Gulf. While many food service operators prefer to utilize high quality products for their operations, price can be a deterrent. U.S. beef is a good example; end users prefer it for its high quality but many refrain from using it for concern that it will increase their costs. U.S. beef consumption would be greater if U.S. exporters were able to convince end users in the UAE to look at the variety of U.S. beef cuts.

- Longer freight times affect the shelf lives of many products, particularly perishables.
- Finally, U.S. exporters will sell more if they are able to entertain orders for full container loads of mixed products.
- US exporters also need to keep in mind statutory local requirements – Arabic labeling, printing both production and expiry dates on product labels.
- US exporters are sometimes perceived as inflexible. Importers indicate this may be because of the small size of the UAE market relative to the U.S. domestic market and other larger international markets.

B. Market Structure

Specialized importers are the main source of food products for the food supply chain. In many cases importers act as wholesalers and distributors in addition to their sales to wholesalers. The HRI sector typically relies on importers and distributors for sourcing their product needs rather than importing directly.

While most of the major importers and distributors carry a wide range of products that any single HRI business would need, HRI businesses rarely limit their dealings to only one supplier. They all prefer to deal with more than one source to benefit from the competitive environment and to secure a range of products.

In a few instances, end-users import products directly from a foreign supplier. However, factors like storage, transportation, special handling and other infrastructure considerations typically limit end-users from assuming the risk of importing directly. Many restaurant chains rely on specific importers or exporters to supply all of their product needs.

C. Sub-Sector Profiles

Hotels

The UAE, particularly the Emirate of Dubai, has worked hard to market itself as a business and tourist destination for travelers. The contribution of tourism to non-oil GDP is currently estimated at 15 to 20 percent. In this regard, the Government of Dubai has implemented a very ambitious plan including the construction of a number of luxury hotels, resorts, restaurants and residential complexes. Focused worldwide promotions have been instrumental in this success story. Along with annual professional world-class men's and women's tennis tournaments, a European PGA tournament, the world's biggest horse race course, an exhausting range of shopping venues, and clean beaches with a carefree security environment, the UAE has become a widely recognized leisure destination. To meet the demand, UAE hotel capacity has quadrupled during the past decade. In 1999 Dubai opened the world's first "seven star hotel, the "Burj Al Arab" or "The Arab Tower" followed by the opening of the Emirates Palace Hotel, the second seven

star Hotel in 2005. Both hotels are now famous land marks and visited by thousands of visitors yearly.

The number of hotel rooms across the UAE is currently estimated at 50,000 in 400 hotels whereas the number of hotel apartments exceeded 230, of which 125 are in Dubai, 45 in Abu Dhabi and 63 in Sharjah. Along with the capacity in short-lease apartments, this gives the UAE the second largest tourist accommodation capacity in the Middle East after Egypt.

Table 2 - Growth in Dubai's Hotel Industry

Description	2000	2001	2002	2003	2004	2005	2006	2007
Number of Hotels	265	264	272	271	276	300	306	318
Number of hotel rooms	20,315	21,428	23,170	25,571	26,155	29,834	31,645	32,616
Occupancy %	61.2%	60.9%	70.1%	72.4%	81.0%	84.6%	82.0%	84.4%
Number of Hotel Apartments	128	133	128	100	95	107	117	125
Number of Flats (Units)	6,533	7,113	8,185	7,509	7,278	8,395	9,217	10,190
Occupancy %	65.2%	63.0%	69.1%	69.2%	75.3%	80.3%	80.0%	82.3%

Source: Department of Tourism & Commerce Marketing, Dubai

Table 3 - Abu Dhabi's Hotel Industry Statistics in 2006

Description	2006
Number of Hotels	41
Number of hotel rooms	6,774
Occupancy %	86.94%
Number of Hotel Apartments	30
Number of hotel rooms	3,355
Occupancy %	93.65%

Source: Abu Dhabi Tourism Authority, Abu Dhabi

Table 4 - Growth in Sharjah's Hotel Industry

Description	2004	2005	2006	2007
Number of Hotels	21	20	24	33
Number of hotel rooms	2,827	2,797	3,237	3,721
Occupancy %	78%	81%	82%	85%
Number of Hotel Apartments	34	37	50	63
Number of hotel rooms	1,950	2,114	2,843	3,238
Occupancy %	70%	66%	67%	73%

Source: Sharjah Commerce & Tourism Development Authority, Sharjah

Table 5 – Dubai Hotel & Hotel Apartments Projected Supply 2008-2010

Description	2008	2009	2010
Hotels	341	350	354
Hotel Apartments	129	134	134
Hotel Rooms	44,918	49,304	51,323
Hotel Apartment Flats	12,220	12,770	12,856
Projected Hotel Visitors	6,615,000	7,353,000	8,070,000
Hotel Apartment Visitors	1,086,000	1,136,000	1,221,000

Source: Department of Tourism & Commerce Marketing, Dubai

Reliable sources estimate the contribution of the average hotel's food service facilities to the establishment's revenues at 40-50 percent, depending on the class of the hotel. Hotels mostly buy their requirements from the local market which makes them prime customers for food and beverage importers and distributors. The executive chefs of the hotels have a predominant voice in the selection of food products which are consumed in the hotels. Thus, they are a prime target for food distributors and trading company representatives.

It is estimated that \$2.0 billion worth of food and food products were consumed in this sub-sector in 2007.

Restaurants

Across the UAE, there are presently over 11,000 eating establishments, varying between top of the line international class restaurants, cafeterias and fast food chains. At present there are 4,250 restaurants and cafeterias operating in Dubai alone, 3,000 in Abu Dhabi and 2,775 in Sharjah. Residents of the UAE have a wide range of cuisines available to them when dining out, particularly in Dubai.

By law, restaurants that are not part of any hotel premises are not permitted to serve liquor. Units tend to focus on quality of food, service, and price. This sector has seen a massive influx of international franchises, led by U.S. concepts emphasizing cafes, casual dining, and fast foods. One fast food chain of restaurants plans to open 30 new restaurants in 2008, another casual dining restaurant is planning to open 17 new outlets. Eating out is a very popular activity in the UAE and growth in this segment is expected to match or exceed population and visitor growth.

Institutional Catering

Experts in this sector divide it into in-flight catering and industrial catering.

1) In-flight catering: This sector is dominated by three major companies serving the major UAE airports. Reportedly, 150,000 in-flight meals are prepared everyday in UAE, over half of which are consumed in Dubai. Meal cost prices vary depending on the passenger class and length of the flight. U.S. products are generally in demand for this sector.

2) Industrial catering: This sector is handled by a large number of registered catering companies, close to 50. Nearly 60 percent of this sector is dominated by one company which is based in Abu Dhabi. Four other companies capture an additional 30 percent while the remaining 10 percent is serviced by the rest of the companies.

This sector serves offshore and onshore oil rigs, corporate catering, company cafeterias, hospitals, universities, schools, labor camps, clubs and prisons. An estimated 1.5 million meals are prepared daily.

Institutional caterers typically require very competitive prices because of the competitive margins in the industry. Their ability to negotiate is based on the large volumes involved. Generally higher priced US products are less popular with this sector. Caterers feel that business profitability is reduced if they use U.S. products, because of perceived higher costs.

Shipchandling is also an important activity within this sector, with a few dominant players and many smaller ones involved in servicing the specific needs of naval contingents, freight and cruise liners.

SECTION III

COMPETITION

The HRI market in the UAE is very price-sensitive and importers and distributors are keenly attuned to price changes in supplying countries and are accustomed to sourcing from a variety of markets. Hence, while the weak dollar and Dirham dollar peg have lent an advantage to U.S. exporters, longer term, this is a market where exporters must be sensitive to price, quality, and customer service in order to compete in the UAE. Some importers have indicated that U.S. exporters are not always interested in supplying relatively small quantities of certain food products or meeting local labeling requirements. However, U.S. consolidators who have worked to establish reputations for good service and competitive pricing have done very well in the UAE.

While U.S. beef has a reputation for quality and flavor, more competitive pricing and aggressive marketing means that Australia, New Zealand, and to a lesser extent Brazil, are the main suppliers of beef to the upper end of the HRI sector. Lower grade cuts and buffalo meat from India tend to dominate the lower end of the market. Poultry also faces strong competition from Europe and South America. However, U.S. chicken leg quarters are widely accepted in the hotel sector and catering sectors for their low cost, quality, and yield. Whole U.S. turkeys also do well in November and December catering to large expatriate populations.

Competition from food produced locally from imported ingredients is also rising. The UAE has 300 food processing firms producing everything from mixes and pastas to processed meats to cut fruits. There is also local production of fruits and vegetables such as tomatoes, cucumbers, strawberries and dates. However, most of the fresh fruits and vegetables consumed in the HRI sector are imported from nearby countries such as Iran, Syria, Lebanon, Egypt, Saudi Arabia, Turkey, Jordan, the Indian Subcontinent and several African countries. The U.S., Chile, the Netherlands, Australia and New Zealand also supply high quality produce to the upper end of the market. The cost of air transporting highly perishable U.S. products makes them more costly compared to competing products imported from Europe and other closer markets. Some fresh fruits and vegetables however have a comparatively longer shelf life such as apples, pears, onions and carrots, and hence can be imported profitably from the U.S. Apples, pears, grapes, onions, carrots, and plums from the United States continue to capture good market share for their high quality and long shelf life.

SECTION IV

BEST PRODUCT PROSPECTS

A. Products present in the market, which have good sales potential

Poultry and Poultry Products: Brazil, France, Saudi Arabia, local production and Denmark are the key players in the supply of whole chickens and other poultry meat products. However, U.S. parts, particularly leg quarters have a reputation for price and quality. Attention to regulatory requirements – freezing whole birds and parts individually, labeling considerations; and sensitivity to local pricing considerations could strengthen U.S. presence in this product segment.

Canned and Frozen Fruits: The U.S. exports canned and frozen fruits to the UAE, but faces stiff competition from Europe, Australia and Thailand. Focusing on price-quality relationships could lead to more opportunities in this product category.

Juices: Branded U.S. juices are present in good quantities in the U.A.E. market, but more and more, locally reconstituted juices are taking over market share. In addition, there are supplies from Saudi Arabia, South Africa and Cyprus.

Frozen Vegetables: U.S. brands are well known and are available. However, there is stiff competition from Canada and Europe.

Condiments: U.S. companies dominate the fast food markets and, by extension, consumers are familiar with U.S. sauces and condiments.

Sauces: U.S. products in this category are present in the market and command good market share. Different types of U.S. sauces particularly hot sauces are in great demand by the HRI sector.

Almonds: U.S. almonds are in great demand, particularly shelled, diced and sliced, in hotels, bakeries, catering companies, pastry shops and restaurants. Iran supplies a much smaller quantity of almonds, but the quality of U.S. almonds is highly regarded.

Cake mixes, Specialty Flours, Prepared Baked Goods: These products are popular among pastry and bakery chefs for their high quality.

Vegetable Shortening: U.S. products are popular for their stability particularly when it is used for frying at fast food restaurants.

B. Products not present in significant quantities, yet have good potential

U.S. Beef: Growing tourism and projected growth in the deluxe hotel sector in the future should result in increasing demand for U.S. beef. India, Australia and New Zealand are the key players in the market.

Bakery Ingredients: Competition from European and Australian products in this line are intense. U.S. market share may increase if U.S. suppliers put more emphasis on marketing and good customer service in this market.

Lobsters and Shellfish: Lobsters from Maine are well known for their high quality and high price. Live lobsters are in demand, but Canadian and Australian products are popular for their lower prices.

U.S. Wines: Lower priced wines from Chile and Europe are quite popular. However, U.S. wines have a good reputation and value wines have good potential.

C. Products not present because they face significant barriers

Being an Islamic state with a local and large expatriate Muslim population, the market for pork and pork products is essentially limited to non-Muslim consumers. There is no market for 'kosher' food as such.

SECTION V

POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to the United Arab Emirates or the other markets covered by this office (Bahrain, Kuwait, Oman and Qatar), please contact the U.S. Agricultural Trade Office in Dubai at the following address:

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